

PERSONAL PROPERTY RENTALS

To better serve you, the Arizona Department of Revenue now offers online assistance and filing of your business taxes. To file your taxes online or to register to use the website, go to www.aztaxes.gov

This publication provides general information about transaction privilege tax (TPT) on personal property rentals. For complete details, refer to the Arizona Revised Statutes and the Arizona Administrative Code. In case of inconsistency or omission in this publication, the language of the Arizona Revised Statutes and the Arizona Administrative Code will prevail.

Who Must Pay

Anyone in the business of renting tangible personal property to others is subject to transaction privilege tax under the personal property rental classification.

Examples of taxable rental items include:

- office equipment
- construction equipment
- data processing equipment
- restaurant equipment
- gardening equipment
- machines
- appliances
- televisions and radios
- floor polishers
- tuxedos and other clothing
- linens and towels
- cars, trucks, boats, planes, etc.
- canned computer software
- videotapes, movies, etc., for personal use

Businesses that rent items only as a side activity are still subject to the transaction privilege tax under the personal property rental classification on the income from such rentals. For example, a supermarket that rents carpet cleaning equipment must pay tax on the rental income.

What is the Tax Rate on Personal Property Rental and How Do I Pay?

The current combined state and county tax rates can be found in the *Arizona State, County and City Transaction Privilege and Other Tax Rate Tables* under Business Class Code 014. Most Arizona cities participate in the state collection program, and those taxes are reported and paid on the Transaction Privilege, Use and Severance Tax Return (Form TPT-1). Most of the larger cities license and collect privilege tax independently of the state. If you are unsure whether your city collects its own tax or if the state collects for it, check the *Arizona State, County and City Transaction Privilege and Other Tax Rate Tables*.

NOTE: For ease of reporting, state and county rates are combined on the *Arizona State, County and City Transaction Privilege and Other Tax Rate Tables*. City tax is reported separately. See Form TPT-1 instructions for details.

Factoring Transaction Privilege Tax

When a business “factors” transaction privilege tax, it means the tax is included in the total price rather than shown as a separate charge. If you choose to factor the tax, the tax must be calculated using a factoring formula. There are many different factoring formulas depending on city taxes, county taxes, or differences in allowable city tax deductions. See Transaction Privilege Tax Procedure TPP 00-1 for information about factoring.

Reporting Rental Income on the TPT-1

The state collects and distributes transaction privilege tax to Arizona counties, so it is important that a business determines and reports rental income for the correct location. Your business location—the business address that appears on your business license—is the location that you should use to report rental income. If this address is not in Arizona, then the correct location to use is the lessee’s residential or primary business street address. For example, if a company without an Arizona business address rents property to a renter that brings the property into the state for use in Arizona, the company should report the rental income using the lessee’s residential or primary business street address in Arizona.

Special Situations

1. Buying Items to Rent to Others

If you are in the rental business, generally you do not owe retail transaction privilege tax on items you buy for the purpose of renting to others. These purchases are considered sales for resale and are exempt.

2. Charges Added to Rent

Charges for items such as insurance, fuel, mileage, collision damage waivers and maintenance are taxable as part of your rental income. This is true even though the charges may be billed separately from the rental charge. However, if the business renting the property is also acting as an agent for an insurance company, then any insurance premiums collected are not subject to transaction privilege tax.

3. Rent for Re-Rent

If you rent items to someone who re-rents the items, you are not taxable on your rental income. To claim this exemption, you must obtain from the lessee an exemption certificate, signed by and bearing the name and address of the lessee. The certificate must state that the property was rented for re-rent in the ordinary course of business, that the lessee has a valid license to rent such property and the certificate must include the license number. However, the rental of items such as bedding and linens to hotels/motels for use in their business of providing lodging or other room facilities is not considered rent for re-rent.

4. Renting to Contractors or Non-Profit Organizations

Rentals of equipment to contractors and most nonprofit organizations are subject to tax.

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5. Lease-Purchase

The rental income from leasing an item that has a purchase option is taxed under the personal property rental classification until the item is purchased. Income from the eventual sale of the item is taxed as a retail sale.

6. Automobile Leases and Rentals

To determine whether an automobile lease or rental is subject to tax, the department will examine whether the motor vehicle is licensed, registered, or primarily used in Arizona.

7. Taxes Paid to Another State

Arizona does not allow a rental business to take a deduction or credit for taxes paid in another state on a lease or rental of tangible personal property.

Exemptions

1. Leasing of a motor vehicle is exempt if the motor carrier tax, the motor carrier fee or the light motor vehicle fee is paid to the Department of Transportation.
2. Items rented to a hospital organized and operated exclusively for charitable purposes. The institution must obtain a qualifying letter from the department for this exemption.
3. Items rented to nonprofit licensed nursing care institutions, licensed residential care institutions, kidney dialysis centers. Also, items rented to qualified health care organizations if the property rented is used solely to provide health or medical related educational and charitable services. The institution must obtain a qualifying letter from the department for this exemption.
4. Items rented to hospitals, nursing care institutions or residential care institutions operated by the federal or state governments or political subdivisions of the state.
5. The rental of prosthetic appliances prescribed or recommended by a physician, dentist or medical professional. Prosthetic appliance means an artificial device necessary to support or take the place of a part of the body or to increase the activity of a sense organ.
6. Rental of films, tapes and slides by theaters, television stations and radio stations.
NOTE: *The rental of videotapes to individuals for their own use is taxable. Related membership fees for video clubs are also included in rental income and taxable.*
7. Rental of certain machinery or equipment used directly in manufacturing; processing; fabricating; job printing; refining; extracting ores or minerals; producing or transmitting electrical power; repairing, remodeling, or maintaining aircraft; drilling for oil or gas or extracting oil or gas; or research and development.
8. Rental of tangible personal property, to persons engaged in business classified under the telecommunications classification, consisting of

central office switching equipment, switchboards, PBX equipment, microwave radio equipment, and certain carrier equipment.

9. Rental of pipes or valves four inches in diameter or larger used to transport oil, natural gas, artificial gas, water, or coal slurry.
10. Rental of aircraft, navigational and communication instruments, and other accessories and related equipment to certain entities for commercial purposes.
11. Rentals of certain new agricultural equipment if the leases are for longer than two years.
12. Rental of tangible personal property that is shipped or delivered outside of the state and intended from the lease's inception for use exclusively outside of the state.
13. Rental of tangible personal property that is removed from Arizona and used exclusively outside of the state. Intermittent out-of-state use does not constitute removal from the state for use exclusively outside of the state, and the rental would still be subject to tax. Examples of intermittent out-of-state use include use of leased items on out-of-state business trips and service calls.
14. Leasing between parent corporations and subsidiary corporations or between subsidiary corporations if the parent corporation owns at least 80% of the subsidiary's voting shares and paid taxes on the initial purchase of the item.
15. Reimbursement by the lessee of a motor vehicle for payments by the lessor of vehicle registration and taxes to the extent that such fees are separately billed to the lessee.
16. Rental of solar energy devices, but not exceeding five thousand dollars per device. In order to claim this deduction, the retailer must be registered as a solar energy retailer.

For Additional Information, call:

Phoenix (602) 255-2060
Toll free from area codes 520 & 928 ... (800) 843-7196

For Hearing Impaired - TDD only:

Phoenix (602) 542-4021
Toll free from area codes 520 & 928 .. (800) 397-0256

Or Write to:

Arizona Department of Revenue
Taxpayer Information & Assistance
1600 W Monroe
Phoenix AZ 85007

For Related Tax Information:

Internet Address www.azdor.gov
Recorded tax information (602) 542-1991
Toll free from area codes 520 & 928 . (800) 845-8192
Forms by Mail (602) 542-4260
Forms by Fax (602) 542-3756
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